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PROBABLE EFFECTS OF RECENT CHANGES IN ARGENTINE ECONOMIC  
PRACTICE ON US SECURITY INTERESTS

## SUMMARY

Argentina's recent successful bid for US financial assistance marks an important change in that country's economic policy that is expected to endure during the period of Argentine economic rehabilitation. Over this short-term period effects on US interests are expected to be favorable; many of the effects over the longer term will be unfavorable.

Over the short-term US interests should be favored in several ways. Revisions in Argentine economic practice as well as the use of stop-gap US financial assistance should strengthen the Perón regime, thereby promoting its stability. In the Inter-American System, Argentina will probably further reduce its resistance to US policy objectives, fulfill obligations that may devolve from its recent ratification of the Rio Treaty, and restrain anti-US propaganda. Moreover, the moderate concern among other Latin American republics over US assistance to Argentina is not expected to complicate seriously US relations with them. In the UN, the Perón regime is expected to continue its policy of cooperation with the US and, in relation to the cold war, will probably pursue a less equivocal course than it has in the past. US-Argentine economic relations will probably also be favorably affected by the

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latter's measures to improve the climate for US capital and enterprise and to expand exports. Expansion of Argentine exports will help toward closing the dollar gap and favor Western European recovery and defense.

Over the long term, Argentine economic recovery would greatly reduce the incentive to cooperate with the US. Argentina would probably revert to narrowly nationalistic policies because of its ambition to rival the US and its desire to attain a high degree of economic independence. Such a return to nationalist excesses would adversely affect US long-term interests in several respects. For example, if the Argentine Government again sets out to bring about economic independence through accelerated industrialization, simultaneously with sharp increases in mass living standards, the economic bases for its stability may again be undermined. Renewal of expansionist threats to neighboring states would cause these states to call again on the US for protection. In the UN, Argentine support of the US would be reduced in the interest of promoting Argentine prestige among other American republics. The Argentines would probably go to greater lengths in attempting to improve their bargaining position with the US by exploiting ties with other countries, including the Soviet bloc. Revival of aggressive nationalism would clash with US economic policy and would prejudice US capital and enterprise in Argentina.

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PROBABLE EFFECTS OF RECENT CHANGES IN ARGENTINE ECONOMIC  
PRACTICE ON US SECURITY INTERESTS1. Introduction.

Argentina's recent successful bid for US cooperation and financial assistance after commitments to improve conditions for US business in Argentina and after undertaking much-needed economic reform marks an important modification in that country's postwar economic practice and the end of a period of temporizing that began in mid-1948. Since the Peron Government has taken this initial step, which is not without political risk to the regime, it seems reasonable to expect that it will take at least such further steps as may seem necessary to encourage further US assistance during the short-term period required for recovery of the Argentine economy. This will probably be three or four year unless world-wide military procurement is greatly expanded and Argentine recovery thereby accelerated.

An analysis of the effect of these changes in Argentine policy on US interests may best be considered under two heads: short-term effects during the period of rehabilitation and longer-term effects after it is completed. The short-term effects (found generally favorable to US interests) are analyzed in Section 2 of this paper; the longer-term effects (many of them unfavorable) in Section 3. An appendix outlines the situation out of which this Argentine change of policy developed.

2. Short-term Effects on US Interests.

Certain US interests in relation to Argentina should be favorably affected for the short term. The extent and duration of such US advantage will be

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influenced by the effectiveness of US-Argentine collaboration in relieving the latter's economic difficulties and by the length of time required. This will probably be over a three or four year period during which the advantages of collaboration with the US will be clear to the Argentine Government. However, once economic recovery is achieved, Argentina should feel free to resume active pursuit of such long-range objectives as economic independence and rivalry with the US for Hemisphere influence.

a. Stability of the Argentine Government.

Revisions in Argentine economic practice as well as the use of stop-gap US financial assistance should stabilize the Peron regime. Unless stability is established, a number of developments unfavorable to US security interests could be expected. Peron might well be overthrown and his displacement lead to internal strife between labor and the army. This would considerably reduce food surpluses, an important US strategic interest in case of war with the USSR. Labor might turn to a Communist leadership. Peron's leadership of Argentine labor is so highly personalized and labor affairs so completely taken over by his administration that there is at present no other effective leadership, except Communist, to which labor could turn. Another unfavorable development, in the event of Peron's overthrow, might be the establishment of an extreme nationalist regime. Such a government would find it politically advantageous to exploit anti-US sentiment more intensely than has Peron. Furthermore, the government would not be restrained in its nationalist excesses either by the large land owners who are discredited or by the middle class which is hopelessly divided politically.

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Although the army, because of its desire for US arms, could be expected to exert a restraining influence on nationalistic anti-US extremes, a new regime would not only be less likely to cooperate with the US, including support in a war with the USSR, but also less capable of achieving economic improvement. Other developments unfavorable to US interests, resulting from possible disorder or from an extreme nationalist successor to the Perón regime, would be the adverse effect on US enterprise in Argentina and on the economic development of the Hemisphere to the extent that it is dependent on expanding production and trade in Argentina.

b. Argentine Cooperation with the US.

(1) Inter-American System.

Continued restraint in its anti-US propaganda may be expected as long as Argentina is dependent on US assistance. This restraint should favorably affect inter-American solidarity by limiting Argentina's ability to impress other Latin American countries it is a rival to the US.

Although US assistance to the Perón Government has caused some concern among neighboring countries, particularly Brazil, which regard Argentina as potentially expansionist as well as undemocratic, this concern has been milder than their usual reaction to US-Argentine collaboration. US interests in Hemisphere solidarity will probably not be seriously prejudiced by this issue, particularly as the Argentine Government will probably continue to moderate its previously aggressive Latin American policy. Other Latin American countries, most of which are now benefiting or expecting to do so from US

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financial assistance, appear to be reconciled to current US aid to Argentina as essential to Argentine and regional stability and to US objectives in the East-West controversy.

Argentina's ratification of the Rio Treaty on 28 June 1950 constitutes a high point in its support of US hemisphere policy and is particularly significant in view of Argentina's bad record on ratifying important inter-American instruments. Ratification was largely motivated by Argentine desires to qualify for purchases of US arms and munitions as well as to encourage continued US economic assistance. The Argentines' tradition of neutrality, their exaggerated concern for sovereignty, and their ambitions for great power status may under certain circumstances cause them to be reluctant to implement the Rio Treaty. Under such conditions, they would probably cause difficulties for the US by seeking to secure advantages in return for fulfilling their obligations, but they could be expected to eventually meet such obligations, particularly in view of their desires for prestige among other Latin American republics. Adherence to the treaty will probably be followed by increased Argentine participation in Organization of American States (OAS) activities.

Regarding economic matters in the OAS, it would be too much to expect the Argentines to continue the high degree of cooperation they extended in the recent Washington session of the Inter-American-ECOSOC, which occurred while the Argentine negotiations for US assistance were in progress. The future Argentine attitude toward US economic policy, however, will probably improve over the obstructionist tactics so evident in the past.

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although limited resistance to US policy can be expected to continue, being ascribed to domestic political necessity.

(2) United Nations.

The Perón regime may be expected to continue both its policy of cooperation with the US in major UN bodies and its independent attitude on UN specialized agencies. Perón has apparently estimated that his support of the US vis-a-vis the USSR is of primary importance in US-Argentine relations. It is, therefore, unlikely that he would, while clearly in need of continued US cooperation and assistance, reduce such support in the UN. Since Argentina is now less able to attempt the role of mediator between the East and West, no longer holding a seat on the Security Council and weakened by its unfavorable economic situation, its support of the US may even be stronger. Although Argentines at the policy-making level have intimated during the negotiations for US assistance that their country may decide to participate in such UN agencies as the World Bank and the Monetary Fund, and may even accede to the General Agreement on Trade and Tariffs, it is doubtful whether such gestures will be carried out. Argentina's record regarding those UN specialized agencies of which it is a member has been one of limited resistance to US objectives, while its failure to join some of these agencies has weakened their potentialities for effective action.

(3) Argentine Position in the East-West Conflict.

In relation to the cold war, the Perón administration will probably pursue a less equivocal course than it has in the past. Perón has frequently

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acted in a manner which would cast doubt on the reliability of Argentine commitments to support US objectives against the USSR. He has, for example, tried to play off the Soviet orbit against the US and, in connection with his "Third Position" foreign policy, has employed at home and abroad much more vigorous propaganda against the US than against the USSR. The Perón Government will probably continue to entertain tentative Soviet and Satellite overtures sporadically, largely for bargaining purposes and to remind the US that there is a price on Argentine support in the cold war. On the other hand, ratification of the Rio Treaty as well as siding with the US against the USSR in the UN represent unprecedented measures of Argentine support of US policy. The much-reduced volume and flagrancy of anti-US propaganda abroad during the past year will also probably continue as long as the Perón Government clearly needs further US aid and cooperation, while on the domestic front modulated anti-US propaganda will probably be passed off by the administration as a necessary political expedient.

The Perón Government will probably maintain and even improve its high standard among Latin American states for containing Communism, not only to impress the US but also out of a genuine concern over Communist penetration of the labor movement and a possible global Communist victory. Although there is some reason to believe that the Perón regime's concern and the effectiveness of its anti-Communist measures are overstated to impress the US, the government's control of Communists has improved markedly during the past year.

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(4) US-Argentine Economic Relations.

US-Argentine economic relations will probably be favorably affected by the latter's measures to improve the climate for US capital and enterprise and to expand exports as an integral part of the Perón recovery program.

During the next three or four years, it is probably that the Argentine Government, in order to encourage an influx of dollar capital, will continue to improve substantially the conditions under which US business operates in Argentina. It is to be expected, however, that on specific issues regarding the status of US interests in Argentina--especially on the politically delicate matter of establishing the rights of foreign business on a basis of law rather than as an executive promise--the Argentines will seek to drive hard bargains. Argentine performance to improve conditions affecting US business in Argentina will be greatly affected by the manner and firmness of US demands, by world trade developments, and by domestic political factors.

Adaptation of Argentina's trade pattern to assist Western European recovery and defense, reduction in state controls and discriminatory practices, and reduced obstruction of international agencies receiving US support are possible developments favorable to US international economic policy. Of these probably the most likely and the most important to the US as well as to the Argentines is the increase of trade between Europe and Argentina, as the latter's exportable surpluses again become available on a large scale. Argentina is one of the few countries capable of supplying some of the raw materials and food-stuffs that Western Europe will have to obtain from other than dollar sources

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as ECA funds taper off. Expansion of Argentine trade within Latin America should also favor US interests by reducing the dollar gap in that area.

Argentina's low dollar-earning capacity and its need to use its dollars to meet credit obligations will prevent any very considerable expansion of US-Argentine trade. Special efforts through the Joint Argentine-US Commission to expand exports to the US will probably continue to meet with some success, and credits extended by private US firms can be expected to increase the flow to Argentina of US machinery and equipment above the low levels of 1948-1950. However, since Western Europe rather than the US is Argentina's natural market, and since the Argentines will continue to be short of dollars, they will have to arrange an even greater shift of their trade to Europe than they now contemplate. Current Argentine plans, for example, call for substantial imports from the US which are now obtainable from Europe. Therefore, Argentina will probably find it necessary to revise its trade agreements with Western European countries in order to obtain credits with which to expand trade with Europe.

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### 3. Long-term Effects on US Interests.

Although the favorable effect on US interests over the short term should to some extent continue into the future, it is by no means certain that the net effect over the longer term will be favorable; certain longer-range factors may be expected to operate to the disadvantage of US security interests. Argentina's increased freedom of action, after some economic improvement has been achieved, will enable Perón to resume policies adverse to US interests, similar to those that have guided the Perón administration in the past. Perón's past record, his reluctant and belated modification of his government's policy in order to obtain US assistance when he had little choice, and his misleading of the Argentine public regarding the causes of present difficulties, suggest that he may in fact return to such policies.

#### a. Stability of the Government.

Probable reversion to narrowly nationalistic and inconsistent policies would be unfavorable for long-term stability. The Perón administration has encouraged powerful political groups to pursue incompatible economic goals. His government has conditioned the mass of Argentine labor to expect continually rising living standards and has encouraged powerful nationalist elements to expect economic independence through accelerated industrialization. Since these two programs have become by far the most important bases of political power, it is probable that, with the end of necessity for soft-peddalling them in the interest of US-assisted economic recovery, the Argentine Government will then again emphasize these goals for political purposes. But it is impossible to attain these objectives simultaneously because demands on expendable income for the consumer side of the

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economy in the form of wage increases and social benefits interfere with the capital formation and flow of funds into the investment side of the economy for industrial development. The inevitable failure to satisfy one or both of the powerful political groups demanding wage increases on the one hand and industrial development on the other would weaken the government's support, thus again impairing its stability.

Furthermore, the government's status in the future may be weaker because Perón has never taken the public into his confidence. In addition to emphasizing the Eximbank loan as a credit and distorting US assistance to make it more palatable to Argentine pride, he has misrepresented to the public the condition of the Argentine economy and the significance of the present reform measures. So long as Perón is able to meet the minimum demands of his political support, he will probably be able, through control of information media and repression of opposition and dissident elements, to prevent the opposition from showing up his tactics of deception. However, should Perón's position eventually become weaker, his previous concealment tactics would afford useful ammunition to the opposition.

The foregoing analysis has been based on the assumption that the Perón Government would take the steps necessary for economic improvement over the shorter term. Without this improvement, the long-term unfavorable effects on stability would be intensified. The continuation of economic instability during the next three or four years could conceivably result in an attempt at an army coup d'état resisted by Perón and his labor following. Under such circumstances, a lasting antipathy between the army and labor would probably be created which would weaken

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the stability of the Argentine Government in the future, even if the army attempt to take over were a failure.

b. Argentine Cooperation with the US.

(1) Inter-American System.

Since the Argentines believe themselves destined to attain leadership of South America, and since their foreign policy for fifty years has postulated rivalry with the US, Argentina may be expected to renew its vigorous efforts to extend its influence in Latin America as soon as the period of economic readjustment is over. Such expansionist efforts will most likely be more subtle than in the past, in view of the failure of Argentina's blatant labor propaganda abroad in 1947-1948 and of increased resistance in the OAS to subversive efforts by one American republic against another. Argentina will therefore in all probability concentrate its efforts toward cultivating close economic ties and carrying out ambitious joint development projects with nearby states. On a purely economic basis, such activities would favor US interests in expanded trade and rising living standards. In view of Argentina's record, however, these activities may instead be designed to establish its hegemony over the southern half of South America, thus jeopardizing Hemisphere solidarity. It is also possible that Perón or his successor may, in overestimating the importance to the US of Argentine support in the East-West struggle, miscalculate US willingness to condone Argentine expansionist efforts as the price of its continued alignment. Though the fears of other Latin American states regarding Argentine expansion will probably be reduced for the present, such fears will probably be sharpened when Argentine recovery is attained.

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(2) United Nations

Argentine support of US policies in the UN may become less consistent, though there is no reason to expect a pattern of opposition to the US. When the incentive for cooperation with the US is reduced, Argentina may increase its propaganda use of the UN to enhance Argentine prestige and influence, particularly in Latin America. Such propaganda would probably concentrate on the traditional Argentine theme of equal voting rights for small nations in international organizations. The purpose of this would be to encourage blocs of such countries, primarily Latin American, to accept Argentine leadership. Argentina would not, however, be apt to go beyond these divisive tactics, since to do so would risk antagonizing other Latin American states which predominantly favor US objectives in the UN.

Argentine participation in all of the specialized UN agencies is improbable, because this would require a more complete modification of nationalistic concepts of sovereignty and of economic interest than reasonably can be expected. It is possible that the Argentines may find it to their advantage to join some individual agencies such as the World Bank and the International Monetary Fund, but this will depend largely on progress in the West toward multilateral trade and convertibility of currencies.

(3) East-West Conflict

Although any firm alignment between Argentina and the USSR and Satellite countries is very unlikely, Argentina will probably continue its attempts to improve its bargaining position with the US by exploiting ties with other countries, including the USSR and its Satellites. Since Argentina is

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basically anti-Communist and better able to secure its industrial and armaments requirements from the West, it would obviously prefer to use Western European countries as counterbalances to the US. However, the lengths to which Argentina can go will be determined largely by the degree of unity among the North Atlantic states. Should this unity prove such as to preclude Argentina from exploiting its ties with Western Europe to any great extent, it may intensify its overtures to the East, although these will probably continue to be essentially feints for bargaining purposes.

(4) US-Argentine Economic Relations.

Although some of the benefits to US economic policy will persist, such as a sounder Argentine economy, Argentina's resumption of narrowly nationalist practices will prejudice US-Argentine economic relations. Although the Argentines have probably learned from recent experience that nationalism should not be carried to the extremes of the postwar period, there is no evidence of any change in Argentina's long-range objective of attaining a large degree of economic independence. In view of Argentina's vulnerability to world trade conditions, this objective has become so strong in the national consciousness and so closely associated with aspirations for power that the Perón regime, or any likely successor, despite the lessons of 1948-1950, would again promptly undertake an industrialization and rearmament program at a rate which would be economically unsound. It would not hesitate, for example, to use control measures well-established in Argentina--including state trading, bulk purchasing and selling, and differential exchange rates--to carry out nationalist programs

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for uneconomic plant construction and development of resources in nearby countries for political and strategic reasons. Attempts of this nature to attain economic independence would, of course, conflict with US policy of freer multilateral trade. Likewise, despite Argentina's need of foreign capital and technical skill for development, the political advantages of stressing economic independence and of appealing to nationalistic prejudices raise doubts as to whether or not US capital and enterprise in Argentina will in the long run receive favorable treatment.

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## APPENDIX

DEVELOPMENTS IN ARGENTINA LEADING TO US ASSISTANCE

During the two-year period (May 1948 - May 1950) the Argentine economic situation deteriorated critically and led the Perón administration reluctantly to seek US financial assistance.

Largely because of rapid depletion of large postwar foreign exchange holdings through lavish purchases for accelerated industrialization and rearmament, through liquidation of external debt, and through large-scale nationalization of foreign-owned utilities by purchase, the Perón Government found itself obliged to suspend payment on approximately \$400 million of dollar obligations in May 1948. This default was due chiefly to miscalculation of the rate at which Argentina could pay in hard currencies for industrial equipment and failure to anticipate the continued inconvertibility of European currencies--particularly of sterling--and the 1948 end of the sellers' market in grains. This situation was aggravated by the government's failure to take remedial measures because of its misplaced confidence that early demand by the US for Argentine food surpluses to support a war against the USSR or for European recovery would solve its foreign exchange problems. Argentine export trade declined drastically in 1948 and 1949 largely because the Perón Government did not promptly abandon its earlier postwar price policy of charging what the traffic would bear and because ECA encouraged procurement of European food requirements from non-Argentine sources. Furthermore, the government's persistence in paying low prices to agricultural producers--counting on the spread between these prices and high export prices

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to finance procurement of industrial equipment--brought on a marked decline in agricultural production and export surpluses which was aggravated by a severe drought in the 1949-50 crop season. As the Argentine economy is highly dependent on imports of raw materials and manufactured products paid for by agricultural exports, the decrease in agricultural exports contributed to severe maladjustments. Shortages of essential imports combined with persistent demands for wage increases--to which the administration acceded because of its dependence on labor's political support--gave impetus to rapid inflation (cost of living in January 1950 was estimated at 373 compared with 100 in 1939). Gold and foreign exchange cover for the currency, which had been 165 percent in 1946, declined to less than 25 percent not long after the administration had the statute requiring a 25 percent minimum suspended in September 1949.

By the end of that year it was estimated that the Perón administration would not be able to avert a major political crisis without foreign financial assistance. Repercussions from economic deterioration had already produced intermittent threats to the Peron Government's stability. Although Perón retained a two-thirds majority in Congress and although political opposition was ineffective, his administration was threatened with possible loss of vital labor support and with army disapproval. The government's problem of maintaining the indispensable backing of these two groups was complicated by their conflicting interests.

The rearmament and industrialization program requiring anti-inflation measures and cooperation with US, the best source of supply, has been a chief

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concern of the army, while labor on the other hand has successfully kept pressing for inflationary wage increases. In this dilemma Perón was able to maneuver adroitly to avoid either loss of power to the army (which appeared imminent in early 1949) or consolidation of labor discontent which threatened in the spring and fall of 1949. However, in order to prevent either of these two contingencies developing to the point of causing his overthrow, Perón and his advisers became increasingly convinced that US assistance would be required and that substantial changes in economic policy would be needed to obtain such assistance.

Because some of its objectives and basic economic concepts were inconsistent with US views, the Perón administration moved hesitantly and reluctantly to obtain US assistance and did not make substantial economic policy changes until events had demonstrated their necessity. The postwar economic program of the Perón administration was an over-ambitious bid for state-directed economic independence comparable to the political independence long enjoyed by Argentina. The attempt to carry out this program, which was also to provide an economic basis for Argentine leadership in South America, conflicted in many respects with world postwar reconstruction and US international trade policies. It also adversely affected US-Argentine trade and US business in Argentina. As the effects of the dollar shortage became more acute and as the condition of the Argentine economy deteriorated in 1948, the Perón Government repeatedly intimated that it would undertake such measures as relaxation of controls, sales of exports at world prices, and participation in the International Emergency Food Committee and in the International Trade Organization. These intimations were not realized in

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any significant degree nor were the anticipated large-scale ECA dollar purchases from Argentina which apparently motivated such gestures. It was not until February 1949, when the army demanded economic reform and improvement in economic relations with the US, that steps were actually taken in this direction.

Miguel Miranda, architect of the postwar state-trading policy, was forced out of the National Economic Council, and Perón's advisers made overtures to the US for financial assistance. Initiation of negotiations with the US and government commitments to revise economic policy relieved army pressure on the regime. From mid-1949 the Argentine Government moved with greater decisiveness to improve conditions and to encourage US cooperation in the economic field. Exports sales were increasingly made on the basis of world prices; the scope of state-trading was somewhat reduced; emphasis was shifted from industrialization to agricultural production; and steps were taken to reassure US business in Argentina. Most significant of these steps were continued payments on commercial arrears to US nationals, begun in April 1949, and temporary assistance to US meat packers in Argentina through government subsidies to cover operating losses. In early 1950, in anticipation of an Eximbank loan, Perón offered further assurances, such as the statement that US capital is safe from expropriation. During this period concessions were made to the US regarding air routes and to US aviation companies on remittances of earnings; the situation of US petroleum companies in Argentina was improved and the Argentines evidenced some interest in the International Trade Organization and the General Agreement on Trade and Tariffs, indicating also that some thought was being given to eventual membership in the World Bank and the Monetary Fund. These were the most important concessions that had been made by the Argentines when the \$125 million Eximbank loan was publicly announced on 17 May 1950.

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